

The City of Washington Terrace

June 30, 2006

Financial Statements

(With Auditors' Report)

**LITZ &
COMPANY**

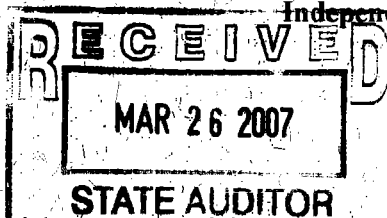
*Certified Public Accountants
A Professional Corporation*

THE CITY OF WASHINGTON TERRACE

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Honorable Mayor and City Council
Washington Terrace City, Utah



We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Washington Terrace City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2006, on our consideration of Washington Terrace City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and statistical section are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Washington Terrace City's basic financial statements. The supplemental information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements of Washington Terrace City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Litz & Company, P.C.
November 10, 2006

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WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006

Washington Terrace City Corporation's management presents to the readers of its financial statements this narrative information. It contains an overview and analysis of the financial position and results of operations as of and for fiscal year ended June 30, 2006. As management of the City, we encourage readers to consider information contained in this discussion along with the transmittal letter and notes to the financial statements.

The following is a discussion and analysis of City of Washington Terrace's financial performance and activities for the fiscal year ended June 30, 2006. Beginning in fiscal year 2004, the City implemented new financial reporting standards, GASB 34, established by GASB (the Governmental Accounting Standards Board). These new standards significantly changed the content and structure of the financial statements. As a result, much of the information is not easily comparable to years prior to 2004.

FINANCIAL HIGHLIGHTS

At year end, Governmental Activities or *tax supported activities* total assets were \$31,260,104 and liabilities \$7,453,059. The assets of Governmental Activities exceeded its liabilities by \$23,807,045 (net assets). Of this amount, \$20,921,337 is invested in capital assets, net of related debt; \$211,097 is restricted for roads; \$230,987 is restricted for impact fees; and \$2,443,624 is unrestricted.

At year end, Business-Type Activities or *fee supported activities* total assets were \$7,805,741 and liabilities \$2,990,891. The assets of Business-Type Activities exceeded its liabilities by \$4,814,850 (net assets). Of this amount, \$5,417,528 is invested in capital assets, net of related debt, and \$(602,678) is unrestricted.

The Primary Government or Governmental and Business-Type Activities reported total assets of \$39,065,845 and liabilities of \$10,443,950 resulting in total net assets of \$28,621,895. Net assets consist of \$26,338,865 invested in capital assets, net of related debt; \$211,097 restricted for roads; \$230,987 restricted for impact fees; and \$1,840,946 unrestricted.

The City's Governmental funds reported a combined ending fund balance of \$2,649,921 or an increase of \$161,464 in comparison to the prior years total ending fund balances. Of the combined total fund balance, \$2,207,837 is unreserved but may be designated for future projects.

The fund balance of the General Fund at June 30, 2006, totaled \$1,188,102. Of said amount, \$211,097 is reserved for Class "C" roads and \$977,005 is unreserved. Unreserved fund balance for the General Fund was 32 percent of the ensuing years budgeted revenues and has increased by \$431,769 from the prior year.

Total bonded debt for Business-Type Activities decreased by \$130,000. At year end, total outstanding long-term debt for Business-Type Activities was \$2,825,000. Amounts due within one year were \$1,332,963.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements that include three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information that will help the reader gain a more in depth understanding of the City's financial condition.

The government-wide financial statements are comprised of: 1) the Statement of Net Assets (SNA), and 2) the Statement of Activities (SA). These two statements provide a broad overview of the City's finances.

The SNA reports the overall net assets of the City. Over time, increases and decreases in net assets are one indicator of the City's overall financial position as improving or declining.

The SA helps identify functions of the City that are primarily supported by taxes and other general governmental activity revenue in conjunction with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The SA shows the changes to net assets that occurred during the most recent fiscal year. These changes are recorded on an accrual basis when the underlying event that causes the

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

change occurs, regardless of when the cash transaction takes place. One example is the next debt interest payment when the fiscal year ends in between interest payments. The Statement of Activities shows an additional interest expense for the time period between the last interest payment and the end of the fiscal year.

Both of the government-wide financial statements distinguish between activities that are largely supported by taxes and intergovernmental revenues (Governmental Activities) and those whose operations are entirely or largely financed by user charges and fees (Business-Type Activities). The Governmental Activities for the City include general governmental (legislative and executive activities and non-departmental); public safety (Police and Fire), public works/streets and parks/recreation (Public Services). The business-type activities include water, sewer, storm-water, and refuse collection. The government-wide financial statements include not only Washington Terrace City itself (the primary government), but also the legally separate Redevelopment Agency of Washington Terrace. This entity (a component unit) is financially accountable to the City and is presented separately from the primary government itself; but for all practical purposes function as a part of the City and are therefore blended as an integral part of the primary government.

The City Business-Type Activities include operating water, sewer, garbage and storm drain services.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required to exist by law, while other funds are established internally to maintain control over a particular activity. All of the City's funds are divided into two types, each of which uses a different accounting approach. The two types are 1) Governmental Funds and 2) Proprietary Funds.

Governmental Funds – Most of the City's basic services are accounted for in governmental funds. These fund types are essentially the same functions reported as governmental activities in the government-wide financial statements.

Proprietary Funds – The City maintains one type of proprietary fund—an Enterprise Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City enterprise fund reports all activity related to providing water, sewer, garbage, and storm water services.

Internal Service funds – These funds are used as an accounting device to accumulate and allocate costs internally among the City's various functions. At fiscal year ended June 30, 2004, the City dissolved its only internal service fund that accounted for its fleet activities—Motor Pool Fund. All fund assets are now reported in the fund that is the predominate beneficiary—the General or Enterprise Fund.

Differences between Government-Wide and Fund Statements

Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements but are expenditures on the governmental fund statements. Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements. Those revenues are deferred on the governmental fund statements.

Notes to the Financial Statements

The notes found within these financial statements provide additional schedules and information that are essential to a complete understanding of the financial statements and the City's financial position. The notes apply to both government-wide financial statements and the fund financial statements.

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

THE CITY OF WASHINGTON TERRACE							
Multi-Year Comparative Summary of Net Assets							
	Primary Government						Total % Change from prior year
	Governmental Activities		Business-Type Activities		Total		
	2005	2006	2005	2006	2005	2006	
Current and other assets	3,120,231	3,080,396	499,676	(371,582)	3,619,907	2,708,814	(0.25)
Capital assets	28,307,961	28,179,708	7,255,523	8,177,323	35,563,484	36,357,031	0.02
Total Assets	31,428,192	31,260,104	7,755,199	7,805,741	39,183,391	39,065,845	(0.00)
Long-term liabilities outstanding	7,424,531	6,823,691	2,965,000	2,825,000	10,389,531	9,648,691	(0.07)
Other liabilities	840,723	629,368	211,644	165,891	1,052,367	795,259	(0.24)
Total Liabilities	8,265,254	7,453,059	3,176,644	2,990,891	11,441,898	10,443,950	(0.09)
Net assets							
Invested in capital assets,	20,404,232	20,921,337	4,155,523	5,417,528	24,559,755	26,338,865	0.07
net of related debt							
Restricted	290,102	442,084			290,102	442,084	0.52
Unrestricted	2,468,604	2,443,624	423,032	(602,678)	2,891,636	1,840,946	(0.36)
Total Net Assets	23,162,938	23,807,045	4,578,555	4,814,850	27,741,493	28,621,895	0.03

Table 1 (above) represents a Comparative summary of net assets for fiscal years 2005 and 2006 for Governmental and Business-Type Activities

Net Assets

As illustrated in Table 1, Capital Assets represent the largest asset type for Governmental and Business-Type activities for all comparative years. Capital Assets include: land, buildings, equipment, roads, and infrastructure less outstanding debt issued to purchase or build the asset. Capital Assets are not resources that are not available for spending, nor can they be readily being liquidated to satisfy related liabilities. In 2006, Capital Assets reflect 90% or \$28,179,708 of total Governmental Activities assets and 72% of total Capital Assets for the Primary Government. Business-Type Activities Capital Assets reflect 105% of Capital Assets and 21% of total Capital Assets for the Primary Government.

Long-Term Liabilities Outstanding represents the largest liability type for Governmental and Business-Type activities for all comparative years. Long-Term Liabilities Outstanding include: bonds and notes, leases payable, and compensated absences. In 2006, Long-Term Liabilities reflect 92% or \$6,823,691 of total Governmental Activities assets and 65% of total Long-Term Liabilities for the Primary Government. Business-Type Activities Long-Term Liabilities reflect 94% or \$2,825,000 of Long-Term Liabilities and 27% of total liabilities for the Primary Government.

Governmental Activities Restricted net assets include \$211,097 for Class "C" roads and \$230,987 for impact fees. Restricted net assets for Governmental Activities represent 2% of total net assets. Restricted net assets are subject to external restrictions on how they may be used. The remaining \$2,443,624 or 10% of Governmental Activities net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens, creditors, or completion of ongoing projects.

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

Program Expenditures, Revenues, and Net Costs by Major Function

Table 2 (below) illustrates the Governmental Activities relied on taxes and other general revenue to cover all their costs.

THE CITY OF WASHINGTON TERRACE						
Multi-Year Comparative Changes in Net Assets						
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues						
Program Revenues:						
Charges for services	396,712	1,321,428	1,805,033	1,863,754	2,201,745	3,185,182
Operating Grants and Contributions	241,085	285,519	-	2,988	241,085	288,507
Capital Grants and Contributions	350,848	-	-	-	350,848	-
General Revenues:						
Property Taxes	1,324,695	1,312,438			1,324,695	1,312,438
Other Taxes	1,162,223	1,375,581			1,162,223	1,375,581
Other	253,204	285,610	2,902	5,151	256,106	290,761
Total Revenues	3,728,767	4,580,576	1,807,935	1,871,893	5,536,702	6,452,469
Expenses						
General Government	732,372	935,221			732,372	935,221
Public Safety	1,065,717	1,108,090			1,065,717	1,108,090
Highways/streets	1,268,005	1,344,756			1,268,005	1,344,756
Parks & Recreation	127,172	158,641			127,172	158,641
Interest on long-term debt	427,949	319,404			427,949	319,404
Public Utilities			1,096,464	1,689,534	1,096,464	1,689,534
Storm Drain				16,423	-	16,423
Total Expenses	3,621,215	3,866,112	1,096,464	1,705,957	4,717,679	5,572,069
Increase in net assets before transfers	107,552	714,464	711,471	165,936	819,023	880,400
Transfers	589,975	(70,358)	(589,975)	70,358	-	-
Increase in net assets	697,527	644,106	121,496	236,294	819,023	880,400
Net assets - beginning 07/01/2005	22,465,411	23,162,938	4,457,059	4,578,556	26,922,470	27,741,494
Net assets - Ending 06/30/2006	23,162,938	23,807,044	4,578,555	4,814,850	27,741,493	28,621,894

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

Table 2 (above) represents fiscal year 2005 and 2006 comparative of Program revenues, expenses, and changes in net assets.

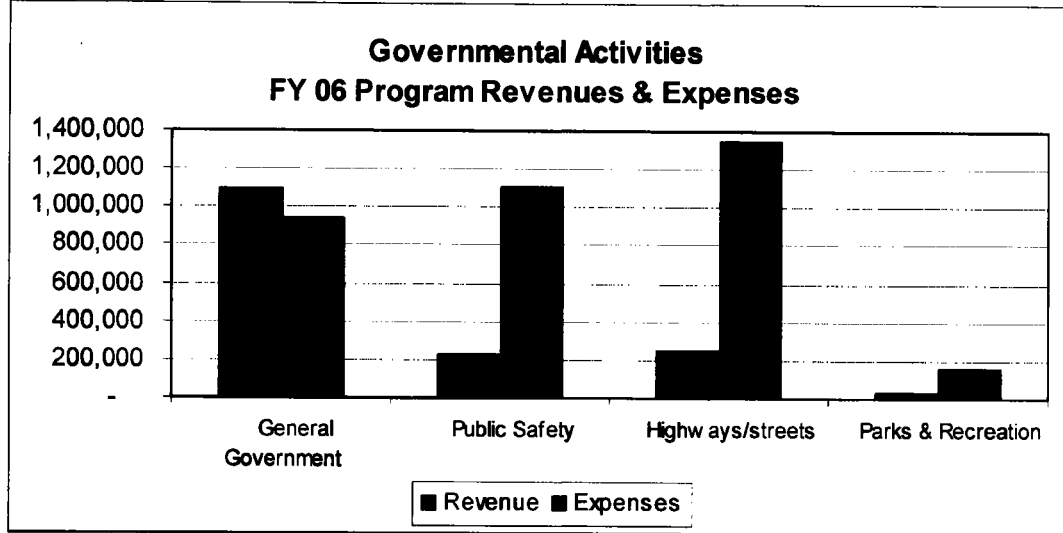


Figure 1 (left) represents fiscal year 2006 Governmental Activities major Program Revenues and Expenses

As illustrated in Figure 1, the General Government has the greatest ability to generate revenues to support its

program expenses. General Government revenues over expenses were \$164,208. Highways and Streets have the lowest ability to generate revenues to support its program expenses. Highways and Streets revenues over expenditures were \$(1,090,578). The trends depicted in Figure 1 are typical of the City's Governmental Activities.

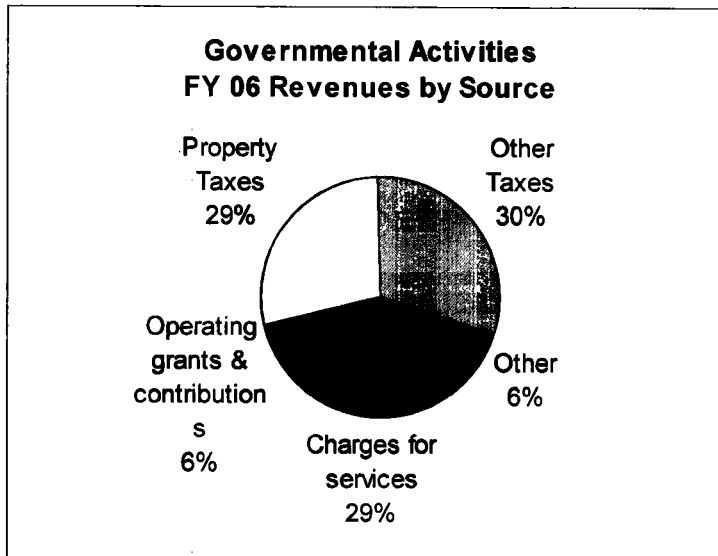


Figure 2 (left) represents fiscal year 2006 Governmental Activities major Revenues by Source.

As illustrated in Figure 2, Other Taxes is the largest major revenue source. Other Taxes represent general sales and use taxes and franchise taxes.

The greatest change in Revenues by Source from the prior period was Charges for Services. In 2005, Charges for Service for the General Government reported \$67,966 in program revenues and in \$1,072,818 in 2006.

Governmental Activities increased net assets in 2006 by \$644,106 accounting for 73% of total growth in the Primary Government's increase in net assets.

**WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued**

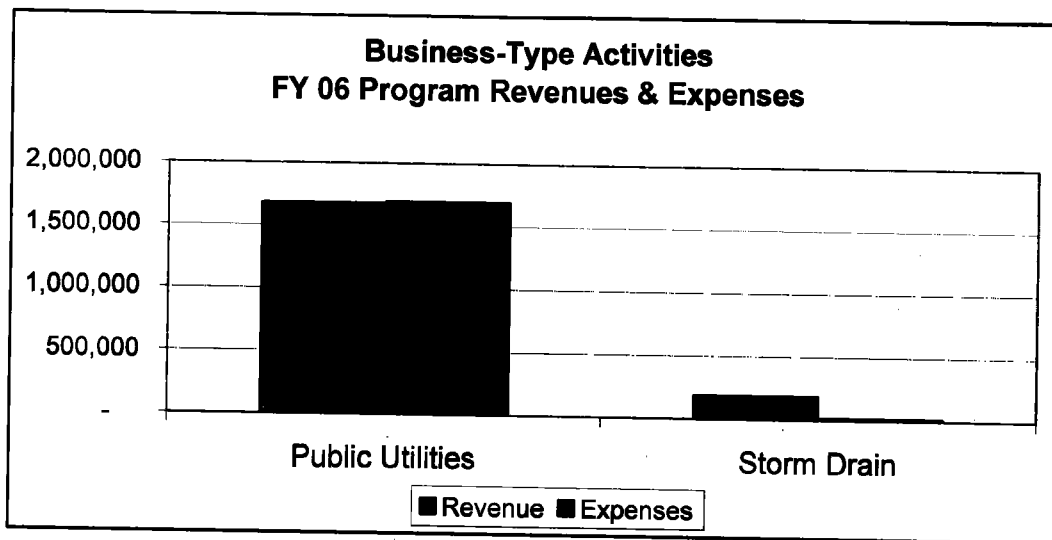


Figure 3 (above) represents fiscal year 2006 Business-Type Activities for major Program Revenues and Expenses.

The Storm Drain program has the greatest ability to generate revenues to support its program expenses. Storm Drain revenues over expenses were \$169,618. Public Utilities have the lowest ability to generate revenues to support its program expenses. Public Utilities revenues over expenditures were \$(11,821). Public Utility activities include: water, sewer, and garbage services.

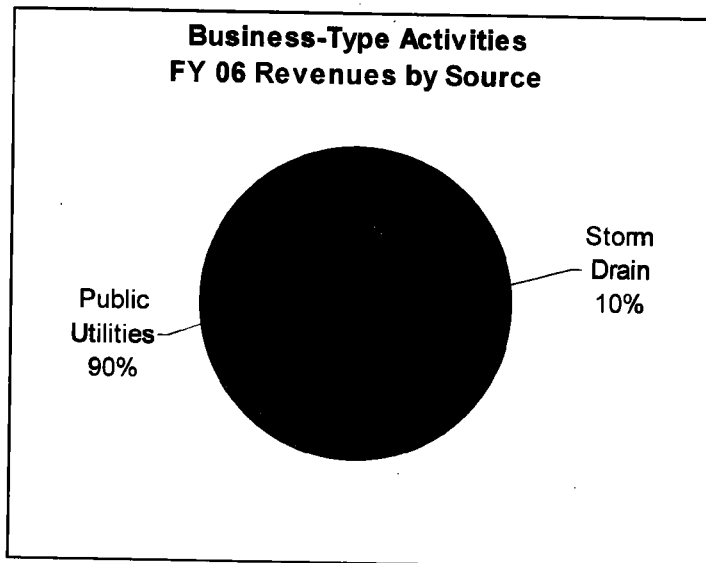


Figure 4 (left) represents fiscal year 2006 major Revenues by Source.

As illustrated in Figure 4, Public Utilities are the largest major revenue source. Public Utilities 90% share of Revenues by Source are expected to remain relatively constant in the future.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Fund Balances

At June 30, 2006, the Governmental Funds reported a combined fund balance of \$2,649,921 up \$161,464 from 2005. Of this amount, \$211,097 or 8% is restricted for Class "C" Road projects and \$230,987 or 9% is restricted Impact Fees for a specific purposes and projects. The remaining \$2,207,837 or 83% is unreserved. Unreserved fund balance includes amounts designated for future projects. Of the unreserved fund balance, \$231,949 is in the Redevelopment Agency Fund, \$949,689 is in the Capital Projects Fund, \$49,194 is in other Non-major Governmental Funds, and \$977,005 is in the General Fund.

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

General Fund Budgetary Highlights

In comparison to the General Fund's departmental final budgeted to actual expenditures, expenditures were down \$265,631. The departmental final budgets over actual changes are summarized as follows:

- \$890 for City Council
- \$1,533 for Court
- \$30,180 for Administration
- \$537 for Treasurer/Hr/Utility Billing
- \$10,572 for Recorder
- \$2,195 for Leisure Services
- \$53,494 for Non-Departmental
- \$1,829 for General Government Buildings
- \$3,001 for Police
- \$30,373 for Fire
- \$1,848 for Planning and Inspections
- \$4,317 for Animal Control
- \$22,273 for Public Works
- \$98,578 for Streets
- \$4,011 for Parks & Recreation

Total General Fund revenues collected were \$3,291,783 or 107% of final budgeted revenues. Actual expenditures were \$2,565,972 or 91% of final budgeted expenditures. It was not necessary for the City to draw upon existing fund balance in the General Fund to cover expenses. Pursuant to the City's Budget Policies and Objectives any amount of fund balance in excess of the legal maximum of 18 percent will be transferred the Capital Improvements Fund to assist with funding future capital projects. The General Fund anticipates transferring \$426,356 to the Capital Projects Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

THE CITY OF WASHINGTON TERRACE							
Multi-Year Comparative Summary of Capital Assets							
Primary Government							
	Governmental Activities		Business-Type Activities		Total		Total % Change from prior year
	2005	2006	2005	2006	2005	2006	
Land	8,304,552	8,386,643	116,813	116,813	8,421,365	8,503,456	0.01
Construction in process	-		348,517	68,677	348,517	68,677	(0.80)
Buildings	1,947,257	1,947,256	11,364	11,364	1,958,621	1,958,620	(0.00)
Capital Improvements	21,689,359	22,135,964	8,148,941	9,557,584	29,838,300	31,693,548	0.06
Machinery and Equipment	572,261	700,300	851,184	851,184	1,423,445	1,551,484	0.09
Less: Accum. Depreciation	(4,205,468)	(4,990,456)	(2,221,296)	(2,428,299)	(6,426,764)	(7,418,755)	0.15
Total Assets	28,307,961	28,179,707	7,255,523	8,177,323	35,563,484	36,357,030	0.02

Table 3 (above) represents fiscal years 2005 and 2006 Governmental and Business-Type Activities Capital Assets Comparative Summary

Capital Assets

As depicted in Table 3, at June 30, 2006, the City's investment in capital assets for its Governmental and Business-Type Activities combined totaled \$36,357,030 (net of \$7,418,755 accumulated depreciation) compared to \$35,563,484 (net of \$6,426,764 accumulated depreciation) at June 30, 2005. Capital assets are categorized by five major groups: land, construction in process, buildings, capital improvements, and machinery and equipment. The greatest change in capital assets when comparing FY 2005 and 2006 occurred in Construction in Process. During fiscal year 2006, many of the 2005 projects were completed. Few projects waited completion at the end of fiscal year 2006 compared to 2005.

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 - continued

Major capital asset *additions* during the year ended June 30, 2006, included:

Governmental Activities

- 300 West Road Reconstruction Project
- Park Improvements
- Purchase of Fire Truck

Business-Type Activities

- 300 West Road Reconstruction Project
- VanLeeuwen Storm Drain Project
- Well Renovation Project
- 300 West Riverdale Road Project

No capital assets were sold, disposed, or no longer depreciated for Business-Type Activities.

Additional information on Capital Assets can be found in the notes to the financial statements.

Long-Term Debt

THE CITY OF WASHINGTON TERRACE							
Multi-Year Comparative of Debt Outstanding							
	Primary Government						Total % Change from prior year
	Governmental Activities		Business-Type Activities		Total		
	2005	2006	2005	2006	2005	2006	
General Obligation Bonds	4,705,000	4,460,000			4,705,000	4,460,000	-5%
Special Assessment Bonds	1,040,000	820,000			1,040,000	820,000	-21%
E/F Revenues Bonds			3,100,000	2,965,000	3,100,000	2,965,000	-4%
RDA Bonds	2,116,949	1,946,271			2,116,949	1,946,271	-8%
Total Assets	7,861,949	7,226,271	3,100,000	2,965,000	10,961,949	10,191,271	-7%

Table 4 (above) represents the City's Primary Government Multi-Year Outstanding Debt Comparison

The State of Utah mandates a general obligation debt limit to 4 percent of the City's total assessed value.

Economic Factors

At June 30, 2006, the unemployment rate for the State of Utah was 3.3 percent, down from 4.5 percent in 2005.

Census 2000 Demographic Profile Highlights

Economic Characteristics	Number	Percent
In labor force (population 16 years and over)	4,176	64.8
Mean travel time to work in minutes (workers 16 years and over)	19.1	(X)
Median household <u>income</u> in 1999 (dollars)	42,243	(X)
Median family income in 1999 (dollars)	47,332	(X)
Per capita income in 1999 (dollars)	17,240	(X)
Families below poverty level	126	5.5
Individuals below poverty level	664	7.9
Source US Census Bureau		
(X) not available		

The rates and fees for utility services experienced a slight increase. All other rates and fees have remained relatively constant. The City anticipates that more significant increases will continue in futures years for users of the City's utility services in order to provide adequate working capital necessary to maintain the water, sewer, and storm drain system, pay debt service, and comply with rate-covenant requirements contained in the City's revenue bond issue.

WASHINGTON TERRACE CITY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2006 -- continued

OTHER MATTERS

Current and Future Projects

The City's Capital Facilities Plan includes a comprehensive assessment on existing facilities and a 20 year plan enacted to renovate, repair, and replace existing deficiencies and new growth demands throughout the City. The Plan projects assists in addressing budgetary issues more

effectively. The Capital Facilities Plan focuses on the following areas: Road Seal Projects, City Fleet Replacement, Buildings & Miscellaneous Projects, Culinary Water Projects, Park Projects, Road Overlay Projects, Road Reconstruction Projects, Storm Drain Projects, and Sanitary Sewer Projects. Through the budgeting process, projects will be identified and scheduled for completion as funding becomes available.

REQUESTS FOR INFORMATION

This financial report is designed to provide its readers with a general overview of the City's financial performance and condition and to demonstrate the City's accountability for the money it receives and disseminates. Questions concerning any of the information in this report or any other matters related to the City's finances should be addressed to:

Washington Terrace Municipal Corporation
Finance and Budget Department
5249 South 400 East
Washington Terrace City, Utah 84405

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BASIC FINANCIAL STATEMENTS

THE CITY OF WASHINGTON TERRACE

Statement of Net Assets

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,303,610	\$ 540,624	\$ 1,844,234
Accounts receivable - net	38,537	189,661	228,198
Due from other funds	1,167,072	(1,167,072)	-
Due from other governmental units	239,305	-	239,305
Prepaid expenses	36,374	-	36,374
Deferred charges - net	295,498	65,205	360,703
Capital assets			
Land	8,386,643	116,812	8,503,455
Construction work in process	-	68,677	68,677
Buildings and improvements	3,044,116	9,568,950	12,613,066
Equipment	703,388	851,183	1,554,571
Infrastructure	21,040,826	-	21,040,826
Accumulated depreciation	(4,995,265)	(2,428,299)	(7,423,564)
Net capital assets	28,179,708	8,177,323	36,357,031
Total assets	31,260,104	7,805,741	39,065,845
LIABILITIES			
Accounts payable	82,018	25,891	107,909
Accrued liabilities	32,709	-	32,709
Deposits	20,250	-	20,250
Noncurrent liabilities due within one year	443,872	140,000	583,872
Noncurrent liabilities due in more than one year	6,874,210	2,825,000	9,699,210
Total liabilities	7,453,059	2,990,891	10,443,950
NET ASSETS			
Invested in capital assets, net of related debt	20,921,337	5,417,528	26,338,865
Restricted for roads	211,097	-	211,097
Restricted for impact fees	230,987	-	230,987
Unrestricted	2,443,624	(602,678)	1,840,946
Total net assets	23,807,045	4,814,850	28,621,895
Total liabilities and net assets	\$ 31,260,104	\$ 7,805,741	\$ 39,065,845

THE CITY OF WASHINGTON TERRACE
Statement of Activities
For the Year Ended June 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 935,221	\$ 1,072,818	\$ 26,611	\$ 164,209	\$ -	\$ 164,209
Public safety	1,108,090	222,406	4,730	(880,954)	-	(880,954)
Highways and public works	1,344,756	-	254,178	(1,090,578)	-	(1,090,578)
Parks and recreation	158,641	26,204	-	(132,437)	-	(132,437)
Interest on long-term debt	319,404	-	-	(319,404)	-	(319,404)
Total governmental activities	3,866,111	1,321,428	285,519	(2,259,164)	-	(2,259,164)
Business-type activities:						
Public utilities	1,689,534	1,677,713	2,988	-	(8,833)	(8,833)
Storm drain	16,423	186,041	-	-	169,618	169,618
Total business-type activities	1,705,957	1,863,754	2,988	-	160,785	160,785
Total primary government	\$ 5,572,068	\$ 3,185,182	\$ 288,507	\$ (2,259,164)	\$ 160,785	\$ (2,098,379)
General revenues:						
Property taxes				1,312,438	-	1,312,438
General sales and use tax				752,715	-	752,715
Franchise tax				622,866	-	622,866
Investment earnings				72,975	5,151	78,126
Miscellaneous				269,179	-	269,179
Gain (loss) on sale of assets				(56,544)	-	(56,544)
Transfers				(70,358)	70,358	-
Total general revenues				2,903,271	75,509	2,978,780
Change in net assets				644,107	236,294	880,401
Net assets - beginning				23,162,938	4,578,556	27,741,494
Net assets - ending				\$ 23,807,045	\$ 4,814,850	\$ 28,621,895

The notes to the financial statements are an integral part of this statement.

THE CITY OF WASHINGTON TERRACE
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Redevelopment Agency	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 8,863	\$ 231,949	\$ 782,617	\$ 280,181	\$1,303,610
Accounts receivable	38,537	-	-	-	38,537
Due from other funds	1,000,000	-	167,072	-	1,167,072
Due from other governmental units	239,305	-	-	-	239,305
Prepaid expense	36,374	-	-	-	36,374
Total assets	<u>1,323,079</u>	<u>231,949</u>	<u>949,689</u>	<u>280,181</u>	<u>2,784,898</u>
LIABILITIES					
Accounts payable	82,018	-	-	-	82,018
Accrued liabilities	32,709	-	-	-	32,709
Deposits	20,250	-	-	-	20,250
Total liabilities	<u>134,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,977</u>
FUND BALANCES					
Fund balances reserved for:					
Class "C" roads	211,097	-	-	-	211,097
Impact fees	-	-	-	230,987	230,987
Designated unreserved:					-
Redevelopment Agency	-	231,949	-	-	231,949
Capital Projects	-	-	949,689	-	949,689
Debt service	-	-	-	49,194	49,194
Unreserved fund balance	977,005	-	-	-	977,005
Total fund balances	<u>1,188,102</u>	<u>231,949</u>	<u>949,689</u>	<u>280,181</u>	<u>2,649,921</u>
Total liabilities and fund balances	<u>\$ 1,323,079</u>	<u>\$ 231,949</u>	<u>\$ 949,689</u>	<u>\$ 280,181</u>	<u>\$2,784,898</u>

THE CITY OF WASHINGTON TERRACE
Balance Sheet Reconciliation to Statement of Net Assets
June 30, 2006

Total fund balances - governmental fund types: \$ 2,649,921

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 28,179,708

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail is as follows:

Bonds payable	(7,226,271)	
Less: Deferred charge on refunding (to be amortized as interest expense)	230,293	
Less: Deferred charge for issuance costs (to be amortized over life of debt)	65,205	
Capital lease payable	(32,100)	
Compensated absences	(59,711)	
	<u>(7,022,584)</u>	

Net assets of government activities \$ 23,807,045

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Redevelopment Agency	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,858,969	\$ 426,761	\$ -	\$ 402,289	\$2,688,019
Licenses and permits	156,345	-	-	-	156,345
Intergovernmental	285,519	-	-	-	285,519
Charges for services	753,361	-	-	-	753,361
Impact fees	-	-	-	214,160	214,160
Fines and forfeitures	184,838	-	-	-	184,838
Interest income	40,027	5,566	23,185	4,197	72,975
Miscellaneous revenue	12,724	-	212,634	-	225,358
Total revenues	<u>3,291,783</u>	<u>432,327</u>	<u>235,819</u>	<u>620,646</u>	<u>4,580,575</u>
Expenditures					
Current:					
General government	759,906	79,456	-	-	839,362
Public safety	1,070,649	-	-	-	1,070,649
Highways and public works	587,911	16,335	-	-	604,246
Parks and recreation	147,506	-	-	-	147,506
Capital expenditures	-	-	738,456	4,569	743,025
Debt service:					
Principal retirement	-	170,678	220,000	245,000	635,678
Interest and fiscal charges	-	99,497	58,234	150,556	308,287
Total expenditures	<u>2,565,972</u>	<u>365,966</u>	<u>1,016,690</u>	<u>400,125</u>	<u>4,348,753</u>
Excess revenues over (under) expenditures	<u>725,811</u>	<u>66,361</u>	<u>(780,871)</u>	<u>220,521</u>	<u>231,822</u>
Other financing sources (uses)					
Transfers in	-	-	355,490	-	355,490
Transfers out	(196,782)	-	(70,000)	(159,066)	(425,848)
Total other financing sources and uses	<u>(196,782)</u>	<u>-</u>	<u>285,490</u>	<u>(159,066)</u>	<u>(70,358)</u>
Excess of revenues and other sources over expenditures and other uses	<u>529,029</u>	<u>66,361</u>	<u>(495,381)</u>	<u>61,455</u>	<u>161,464</u>
Fund balances - beginning of year	<u>659,073</u>	<u>165,588</u>	<u>1,445,070</u>	<u>218,726</u>	<u>2,488,457</u>
Fund balances - end of year	<u>\$ 1,188,102</u>	<u>\$ 231,949</u>	<u>\$ 949,689</u>	<u>\$ 280,181</u>	<u>\$2,649,921</u>

THE CITY OF WASHINGTON TERRACE
Statement of Changes Reconciliation to Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changed in fund balances - total governmental funds	\$ 161,464
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Governmental funds report capital outlays as expenditures (\$731,868). However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$808,670). This is the amount by which capital outlays exceeded depreciation in the current period.	(76,802)
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In the statement of activities, only the <i>gain</i> on the sale of assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.	(56,544)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(8,572)	
Amortization of deferred charge on refunding	(16,450)	
Amortization of issuance costs	(4,346)	
		(29,368)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal repayments	635,678	
Payment on capital lease	9,679	
		645,357

Change in net assets of governmental activities	<u>\$ 644,107</u>
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THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes:				
Property tax - real estate	\$ 339,728	\$ 339,728	\$ 342,731	\$ 3,003
Property tax - vehicles	148,027	118,027	111,586	(6,441)
Delinquent property taxes	25,598	25,598	29,071	3,473
Sales and use taxes	681,760	599,509	752,715	153,206
Franchise taxes	468,341	548,341	622,866	74,525
Total taxes	<u>1,663,454</u>	<u>1,631,203</u>	<u>1,858,969</u>	<u>227,766</u>
Licenses and permits:				
Business licenses	28,846	31,100	31,262	162
Building permits	35,755	87,000	87,265	265
Planning fees	4,000	-	250	250
Fire training courses	54,000	31,000	31,000	-
Animal licenses	7,378	6,350	6,568	218
Total licenses and permits	<u>129,979</u>	<u>155,450</u>	<u>156,345</u>	<u>895</u>
Intergovernmental revenue:				
Class "C" roads	254,615	254,615	254,178	(437)
State liquor fund allotment	5,713	4,730	4,730	-
Other grants	9,468	26,610	26,611	1
Total intergovernmental revenue	<u>269,796</u>	<u>285,955</u>	<u>285,519</u>	<u>(436)</u>
Charges for services:				
Administrative fee - other funds	729,747	727,157	727,157	-
Recreation fees	22,590	32,187	26,204	(5,983)
Total charges for services	<u>752,337</u>	<u>759,344</u>	<u>753,361</u>	<u>(5,983)</u>
Fines and forfeitures	<u>196,336</u>	<u>185,000</u>	<u>184,838</u>	<u>-</u>
Miscellaneous				
Interest	24,400	24,400	40,027	15,627
Other	15,375	31,420	12,724	(18,696)
Total miscellaneous	<u>39,775</u>	<u>55,820</u>	<u>52,751</u>	<u>(3,069)</u>
Total revenues	<u>\$ 3,051,677</u>	<u>\$ 3,072,772</u>	<u>\$ 3,291,783</u>	<u>\$ 219,173</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2006

Expenditures	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
General government:				
City council	\$ 30,601	\$ 30,601	\$ 29,711	\$ (890)
Municipal court	119,670	118,370	116,837	(1,533)
Administrative	266,026	247,814	217,634	(30,180)
Treasurer	127,572	124,156	123,619	(537)
Recorder	66,218	66,218	55,646	(10,572)
Leisure services	59,158	36,112	33,917	(2,195)
Non-departmental	167,609	169,229	115,735	(53,494)
General government building	51,086	68,636	66,807	(1,829)
Total general government	<u>887,940</u>	<u>861,136</u>	<u>759,906</u>	<u>(101,230)</u>
Public safety:				
Police department	754,691	756,321	753,320	(3,001)
Fire department	193,351	203,464	173,091	(30,373)
Inspection and planning	102,830	100,055	98,207	(1,848)
Animal control	50,348	50,348	46,031	(4,317)
Total public safety	<u>1,101,220</u>	<u>1,110,188</u>	<u>1,070,649</u>	<u>(39,539)</u>
Streets and public works:				
Streets	182,167	169,070	70,492	(98,578)
Public works	539,692	539,692	517,419	(22,273)
Total streets and public works	<u>721,859</u>	<u>708,762</u>	<u>587,911</u>	<u>(120,851)</u>
Parks and recreation	<u>116,474</u>	<u>151,517</u>	<u>147,506</u>	<u>(4,011)</u>
Total expenditures	<u>2,827,493</u>	<u>2,831,603</u>	<u>2,565,972</u>	<u>(265,631)</u>
Excess revenues over (under) expenditures	<u>224,184</u>	<u>241,169</u>	<u>725,811</u>	<u>484,804</u>
Other financing sources (uses)				
Capital leases	-	-	-	-
Transfers out	(224,184)	(241,169)	(196,782)	44,387
Total other financing sources (uses)	<u>(224,184)</u>	<u>(241,169)</u>	<u>(196,782)</u>	<u>44,387</u>
Excess revenues and other sources over (under) expenditures and other uses	-	-	529,029	529,191
Fund balance - beginning of year	-	-	659,073	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,188,102</u>	<u>\$ -</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Redevelopment Agency - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 961,448	\$ 964,448	\$ 426,761	\$ (537,687)
Interest income	12,715	5,670	5,566	(104)
Total	974,163	970,118	432,327	(537,791)
Expenditures				
Salaries and benefits	15,502	15,502	15,555	53
Professional and technical	2,100	2,100	780	(1,320)
Capital expenditures	606,929	602,884	-	(602,884)
Administrative fee to general fund	79,456	79,456	79,456	-
Debt service:				
Principal retirement	170,679	170,679	170,678	(1)
Interest and fiscal charges	99,497	99,497	99,497	-
Total	974,163	970,118	365,966	(604,152)
Excess of revenues over (under) expenditures	-	-	66,361	66,361
Other financing sources (uses)				
Total other financing sources (uses)	-	-	-	-
Excess revenues and other sources over (under) expenditures and other uses	-	-	66,361	66,361
Fund balance - beginning of year	-	-	165,588	-
Fund balance - end of year	\$ -	\$ -	\$ 231,949	\$ -

THE CITY OF WASHINGTON TERRACE
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Public Utilities	Nonmajor Fund	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 540,624	\$ 540,624
Accounts receivable - net	189,661	-	189,661
Total current assets	189,661	540,624	730,285
Noncurrent assets:			
Bond issue costs	65,205	-	65,205
Land	116,813	-	116,813
Construction work in process	68,677	-	68,677
Buildings	11,364	-	11,364
Capital improvements	9,557,584	-	9,557,584
Machinery and equipment	851,184	-	851,184
Less: Accumulated depreciation	(2,428,299)	-	(2,428,299)
Total noncurrent assets	8,242,528	-	8,242,528
Total assets	8,432,189	540,624	8,972,813
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	25,891	-	25,891
Due to other funds	1,167,072	-	1,167,072
Bonds payable	140,000	-	140,000
Total current liabilities	1,332,963	-	1,332,963
Noncurrent liabilities:			
Bonds payable	2,825,000	-	2,825,000
Total noncurrent liabilities	2,825,000	-	2,825,000
Total liabilities	4,157,963	-	4,157,963
Net Assets:			
Invested in capital assets, net of related debt	5,417,528	-	5,417,528
Unrestricted	(1,143,302)	540,624	(602,678)
Total net assets	4,274,226	540,624	4,814,850
Total liabilities and net assets	\$ 8,432,189	\$ 540,624	\$ 8,972,813

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Public Utilities	Nonmajor Fund	Total Enterprise Funds
Operating revenue:			
Charges for services	\$ 1,517,153	\$ 161,342	\$ 1,678,495
Connection and other fees	47,749	-	47,749
Other income	112,811	24,699	137,510
Total operating revenues	<u>1,677,713</u>	<u>186,041</u>	<u>1,863,754</u>
Operating expenses:			
Personnel services	646,894	-	646,894
Contractual services	559,739	16,423	576,162
Materials and supplies	121,923	-	121,923
Depreciation expense	207,003	-	207,003
Total operating expenses	<u>1,535,559</u>	<u>16,423</u>	<u>1,551,982</u>
Operating income	<u>142,154</u>	<u>169,618</u>	<u>311,772</u>
Nonoperating revenue (expense):			
Interest income	5,151	-	5,151
Intergovernmental revenue - grant	2,988	-	2,988
Interest expense	(153,975)	-	(153,975)
Total nonoperating revenues (expenses)	<u>(145,836)</u>	<u>-</u>	<u>(145,836)</u>
Income (loss) before transfers	(3,682)	169,618	165,936
Transfers in	<u>70,358</u>	<u>-</u>	<u>70,358</u>
Change in net assets	66,676	169,618	236,294
Total net assets - beginning	<u>4,207,550</u>	<u>371,006</u>	<u>4,578,556</u>
Total net assets - ending	<u>\$ 4,274,226</u>	<u>\$ 540,624</u>	<u>\$ 4,814,850</u>

THE CITY OF WASHINGTON TERRACE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006 and 2005

	Business -Type Activities		
	Public Utilities	Nonmajor Fund	Total Enterprise Funds
Cash flows from operating activities			
Receipts from customers	\$ 1,713,542	\$ 186,041	\$ 1,899,583
Payments to suppliers	(695,911)	(16,423)	(712,334)
Payments for interfund services used	(646,894)	-	(646,894)
Net cash provided (used) by operating activities	370,737	169,618	540,355
Cash flows from noncapital financing activities			
Transfers from other funds	70,358	-	70,358
Loans from other funds	1,167,072	-	1,167,072
Grants and contributions received	2,988	-	2,988
Net cash provided (used) by noncapital financing activities	1,240,418	-	1,240,418
Cash flows from capital and related financing activities			
Purchases of capital assets	(1,128,803)	-	(1,128,803)
Principal paid on capital debt	(135,000)	-	(135,000)
Interest paid on capital debt	(149,628)	-	(149,628)
Net cash provided (used) by capital and related financing activities	(1,413,431)	-	(1,413,431)
Cash flows from investing activities			
Interest and dividends received	5,151	-	5,151
Net cash provided (used) by investing activities	5,151	-	5,151
Net increase (decrease) in cash and cash equivalents	202,875	169,618	372,493
Cash and cash equivalents - beginning	(202,875)	371,006	168,131
Cash and cash equivalents (deficit) - end	\$ -	\$ 540,624	\$ 540,624
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 66,676	\$ 169,618	\$ 236,294.00
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	207,003	-	207,003
(Increase)/decrease in accounts receivable	111,307	-	111,307
(Increase)/decrease in inventory	36,504	-	36,504
(Increase)/decrease in accounts payable	(50,753)	-	(50,753)
Total adjustments	304,061	-	304,061
Net cash provided (used) by operating activities	\$ 370,737	\$ 169,618.00	\$ 540,355.00
Noncash capital financing activities:			
Contribution by developers	\$ -	\$ -	\$ -

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

Washington Terrace City (City) was incorporated on December 12, 1958. The City operates under a mayor council form of government and provides the following services as authorized by its character: public safety (police, fire, inspection and animal control), streets and highways, public utilities (garbage collection, water and sewer), parks and recreation and general administrative services. The financial statements of Washington Terrace City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present Washington Terrace City (the primary government) and its component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB Statement No. 14, "The Financial Reporting Entity". The basic, but not the only, criterion for including a potential component unit within the reporting agency is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations.

Blended Component Unit

The Washington Terrace Redevelopment Agency (RDA) is governed by the Mayor and City Council. Although it is legally separate from the City, the RDA is reported as if it were part of the primary government because its sole purpose is to redevelop areas within the City thereby generating additional property tax and sales tax.

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds. The government-wide statements present information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The effects of inter-fund activity have been eliminated from the government-wide statements except for the residual amounts due between governmental and business-type activities and inter-fund services provided.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies – Continued

B. Government-wide and Fund Financial Statements - Continued

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financials statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements, to the extent that those standards do no conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The use of financial resources to acquire capital assets are shown as assets in the government-wide financial statements, rather than reported as expenditures in the governmental fund financial statements. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source in the governmental fund financial statements. Amounts paid to reduce long-term debt in the government-wide financial statements are reported as a reduction of the related liability, rather than expenditures in the governmental fund statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (generally within sixty days) to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under the accrual method of accounting. However, debt service expenditures, as well as expenditure related to compensated absences and claims and judgments are recorded when payment is due.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting - Continued

Sales and use taxes, franchise taxes and earned but un-reimbursed state and federal grants associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. Property taxes are measurable as of the date levied and available only when cash is received by the county treasurer prior to the City's fiscal year end and remitted to the City within sixty days of its fiscal year end.

The City reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial resources of the City not accounted for by a separate, specialized fund.

Redevelopment Agency Funds - Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted for the improvement, rehabilitation, and redevelopment of blighted areas within the City.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital improvements (other than those financed by proprietary funds.)

The City reports the following major enterprise funds:

Public Utilities Fund - is used to account for the water, sewer, and garbage service provided.

The City reports the following additional fund types:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs (other than those of the proprietary funds).

Impact Fee Fund - Special Revenue Fund is used to account for resources legally restricted to expenditures for specified improvements. The City collects impact fees for police and fire facilities, water, sewer, storm drain, and parks.

Storm Drain Fund - Enterprise Fund is used to account for the fees charged and expenses made for the storm drain system of the City.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by the Enterprise Funds for providing administrative, billing, and repair services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the enterprise funds and of the City's internal service funds are charges to customers to the system. Operating expenses for enterprise funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies – Continued

D. Budgets

Annual budgets are prepared and adopted before June 22 for the fiscal year commencing the following July 1, in accordance with the Uniform Fiscal Procedures Act for Utah Cities. State law requires budgeted revenues to equal budgeted expenditures, and legal control is exercised at the department level. Once a budget has been adopted, it remains in effect until it has been formally revised. Budgets for the general fund, special revenue, and capital projects funds are legally required and prepared and adopted on the modified accrual basis of accounting. Therefore, no reconciliation between budgetary schedules and the GAAP statements is required.

The Budgetary Comparison schedules presented in this section of the report are for the City's general fund and major special revenue funds. Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to July 1. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the City Council through formal resolution. Final budgets do not include unexpected balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Utah State allows for any undesignated fund balances in excess of 5% of total revenue of the general fund to be utilized for budget purposes. The law also allows for the accumulation of a fund balance in the general fund in an amount equal to 18% of the total estimated revenue of the general fund. In the event that the fund balance, at the end of the fiscal year, is in excess of that allowed, the City has one year to determine an appropriate use and then the excess must be included as an available resource in the general fund budget.

E. Taxes

In connection with budget adoption an annual tax ordinance establishing the tax rate is adopted before June 22nd and the City Recorder is to certify the tax rate to the County Auditor before June 22nd. Budgets for the general, special revenue, debt service and capital projects funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The above procedures are authorized by the Utah Code Sections 10-6-109 through 10-6-135.

All property taxes levied by the City are assessed and collected by Weber County. Taxes are attached as an enforceable lien as of January 1, are levied as of October 1, and are due November 30; any delinquent taxes are subject to a penalty. Unless the delinquent taxes and penalties are paid before January 15, a lien is attached to the property, and the amount of taxes and penalties bears interest from January 1 until paid. If after five years, delinquent taxes have not been paid, the County sells the property at a tax sale. Tax collections are remitted to the City from the County on a monthly basis.

F. Capital Assets

Capital assets, which include land, buildings, property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies – Continued

F. Capital Assets - Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are carried at cost or estimated historical cost. Depreciation of these assets is computed by use of the straight-line method over their estimated useful lives as follows:

Buildings and improvements	20-50 Years
Sewer collection system	50 Years
Water distribution systems	50 Years
Infrastructure and improvements	20-40 Years
Machinery and equipment	5-10 Years
Other improvements	10-40 Years

G. Long-Term Obligation

In the government-wide financial statements and proprietary fund types, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance are deferred and amortized over the life of the applicable debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Reservation of Fund Balance/Retained Earnings

The City is required to reserve part of the fund balance of the general fund to account for the unexpected portions of certain types of revenue. The reserved fund balance is for class "C" road revenue. The nonmajor funds have reserved fund balance for impact fees collected which have not been spent on project completion. The City determines on a project by project basis whether to use restricted or unrestricted funds for project completion.

I. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months or less when acquired by the city.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Deposits and Investments

Deposits and investments for the City are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 2 - Deposits and Investments – Continued

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. The City's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The City's bank balances at June 30, 2006 were \$(43,220), of which \$0 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk of investments. The City currently invests only in the state of Utah PTIF as discussed below.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act. The City is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. Following are the City's investments at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF Investments	\$ 1,394,854	54 days*	not rated
Total	<u>\$ 1,394,854</u>		

* Weighted-average maturity

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 2 - Deposits and Investments - Continued

C. Interest Rate Risk - Continued

less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

Note 3 - Accounts Receivable

Accounts receivables are recorded net of the allowance for doubtful accounts of \$13,000 in the enterprise fund.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 8,304,452	\$ 82,091	\$ -	\$8,386,643
Total	<u>8,304,552</u>	<u>82,091</u>	<u>-</u>	<u>8,386,643</u>
Capital assets, being depreciated:				
Buildings	1,947,257	-	-	1,947,257
Furniture and fixtures	10,347	-	-	10,347
Machinery and equipment	561,914	150,000	(18,873)	693,041
Improvements	978,923	153,720	(35,785)	1,096,858
Infrastructure	20,710,436	341,489	(11,099)	21,040,826
Total	<u>24,208,877</u>	<u>645,209</u>	<u>(65,757)</u>	<u>24,788,329</u>
Less accumulated depreciation for:				
Buildings	(474,466)	(41,274)	-	(515,740)
Machinery and equipment	(427,180)	(45,231)	18,873	(453,538)
Improvements	(161,583)	(15,191)	-	(176,774)
Infrastructure	(3,142,239)	(706,974)	-	(3,849,213)
Total	<u>(4,205,468)</u>	<u>(808,670)</u>	<u>18,873</u>	<u>(4,995,265)</u>
Capital assets, being depreciated, net	<u>20,003,409</u>	<u>(163,461)</u>	<u>(46,884)</u>	<u>19,793,065</u>
Governmental activities capital assets, net	<u>\$28,307,961</u>	<u>\$ (81,370)</u>	<u>\$ (46,884)</u>	<u>\$28,179,708</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 116,812	\$ -	\$ -	\$ 116,812
Construction in process	348,517	68,677	(348,517)	68,677
Total	<u>465,329</u>	<u>68,677</u>	<u>(348,517)</u>	<u>185,489</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 4 - Capital Assets - Continued

Capital assets, being depreciated:

Buildings	\$ 11,364	\$ -	\$ -	\$ 11,364
Machinery and equipment	851,185	-	-	851,185
Improvements	8,148,941	1,408,645	-	9,557,586
Total	<u>9,011,490</u>	<u>1,408,645</u>	<u>-</u>	<u>10,420,135</u>

Less accumulated depreciation for:

Buildings	(11,080)	(284)	-	(11,364)
Machinery and equipment	(619,978)	(28,446)	-	(648,424)
Improvements	<u>(1,590,238)</u>	<u>(178,273)</u>	<u>-</u>	<u>(1,768,511)</u>
Total accumulated depreciation	<u>(2,221,296)</u>	<u>(207,003)</u>	<u>-</u>	<u>(2,428,299)</u>

Capital assets, being depreciated, net	<u>6,790,194</u>	<u>1,201,642</u>	<u>-</u>	<u>7,991,836</u>
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Business-type activities capital assets,
net

<u>\$ 7,255,523</u>	<u>\$ 1,270,319</u>	<u>\$ (348,517)</u>	<u>\$ 8,177,325</u>
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Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 35,026
Public safety	37,441
Highways and public works	725,068
Parks and recreation	11,135
Total depreciation expense - governmental activities	<u>\$ 808,670</u>

Business-type activities:

Enterprise fund	\$ 207,003
Total depreciation expense - business-type activities	<u>\$ 207,003</u>

Note 5- Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting). In the governmental funds (using the modified accrual basis of accounting) only the unpaid amounts due retired or terminated employees are recorded as liabilities. All City employees are paid from the general fund. The remainder of the liability is reported in the government wide financial statements as long-term debt in accordance with the Governmental Accounting Standards. The City estimates that none of the compensated absences will be due in the next year due to the fact that employees are building their leave balances.

Note 6 - Retirement Plans

A. Plan Description

Washington Terrace City contributes to the Local Governmental Contributory Retirement System and Local Governmental Non-contributory Retirement System. Public Safety Retirement System for employers with Social Security coverage which are for employers with Social Security coverage cost-

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 6 - Retirement Plans - Continued

A. Plan Description - Continued

sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local

Governmental Contributory Retirement System, Local Governmental Non-contributory Retirement System and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems at 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

B. Funding Policy

In the Local Governmental Non-contributory Retirement System Washington Terrace City is required to contribute 11.09% of their annual-covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Washington Terrace City contributions for the Non-contributory Retirement System for June 30, 2006, 2005 and 2004 were \$61,878, \$63,390, and \$54,898 respectively, for the Public Safety Retirement System the contributions for June 30, 2006, 2005, and 2004 were \$0, \$0, and \$0 respectively, for the Non-contributory Public Safety Retirement System the contributions for June 30, 2006, 2005, and 2004 were \$0, \$0, and \$0 respectively, and for the 401(K) Plan the contributions for June 30, 2006, 2005, and 2004 were \$20,438, \$28,321, and \$34,123 respectively. The contributions were equal to the required contributions for each year.

Note 7 - Deferred Compensation Plan

The City maintains a section 457 deferred compensation plan that is administered through the Utah State Retirement System. The amount of employee contributions to the deferred compensation plan at the year end was \$10,677, \$7,380, and \$18,171 for the years ended June 30, 2006, 2005, and 2004.

Note 8 - Inter-fund Transfers

Transfers were made which will not be repaid. Such amounts for the fiscal year ended June 30, 2006 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Activities		
General	\$ -	\$ 196,782
Capital Projects	355,490	70,000
Nonmajor Funds	-	159,066
Enterprise Funds	70,358	-
	<u>\$ 425,848</u>	<u>\$ 425,848</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 8 – Inter-fund Transfers - Continued

The purpose of the interfund transfers is to meet the City's ongoing cash needs for capital projects. In addition to the operating transfers, the General Fund charged \$646,894 to the proprietary fund for personnel and administrative services during the year.

Note 9 - Redevelopment Agency

The Redevelopment Agency of the City was established to further public purposes in the redevelopment of certain city areas. The tax increment collected by the agency in the amount of \$426,761 was derived from taxpayers within the Redevelopment Area. The increment has been allocated for capital improvements and debt service on the 1999 Redevelopment Bonds. The outstanding principal amount of debt issued for this project at June 30, 2006 was \$1,946,272.

Note 10 - Contingent Liabilities

Amounts received or receivables from grantor agencies are subject to audit and adjustment by those grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial. The City is also involved in various claims that should be covered by insurance.

Note 11 – Construction commitments

The City has active construction projects as of June 30, 2006. The projects include construction of roads and utility system upgrades.

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>	<u>Estimated Completion</u>
300 West	\$31,084	\$24,871	December 2006

Note 12 - Risk Management

Washington Terrace City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in the Local Governments Trust, a public entity risk pool. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. The City carries \$2,000,000 of liability coverage, \$300,000 of fidelity bond coverage.

The City's participates in the public entity risk pool's general liability insurance program. This program requires annual premiums based on the City's level of insurance and previous claims experience. The payment of the premium indemnifies the City for claims that exceed its deductible amount. The risk pool is governed by the inter-local risk pool agreement

Note 13 – Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of two vehicles for the fire department. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 13 – Capital Leases – Continued

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Vehicles	\$ 53,588
Less: Accumulated depreciation	<u>(22,258)</u>
Total	<u>\$ 31,330</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2007	\$ 11,809
2008	11,809
2009	<u>11,809</u>
Total minimum lease payments	35,427
Less: amount representing interest	<u>(3,327)</u>
Present value of minimum lease payments	<u>\$ 32,100</u>

Note 14 – Long-term Debt

A. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.55 - 5.60%	\$ 1,075,000
Governmental activities – refunding	2.10 - 4.10%	<u>3,385,000</u>
		<u>\$ 4,460,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 220,000	\$ 174,910	\$ 394,910
2008	230,000	165,009	395,009
2009	245,000	154,425	399,425
2010	255,000	143,001	398,001
2011	265,000	130,759	395,759
2012-2016	1,475,000	497,410	1,972,410
2017-2021	<u>1,770,000</u>	<u>184,547</u>	<u>1,957,547</u>
Total	<u>\$ 4,460,000</u>	<u>\$ 1,450,061</u>	<u>\$ 5,910,061</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 14 – Long-term Debt – Continued

B. Special assessment bonds

The special assessment debt provides funds for the infrastructure in a special improvement district. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The bonds have a stated rate of interest of 4.6-5.95 percent and are payable in installments of principal over the next 9 years

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2007	\$ 35,000	\$ 55,237	\$ 90,237
2008	35,000	53,398	88,398
2009	35,000	51,260	86,260
2010	35,000	49,078	84,078
2011	40,000	46,827	86,827
2012-2016	245,000	191,615	436,615
2017-2021	315,000	99,275	414,275
2022	80,000	5,652	85,652
Total	<u>\$ 820,000</u>	<u>\$ 552,342</u>	<u>\$ 1,372,342</u>

C. Revenue bonds

The government also issued bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. During the year no revenue bonds were issued. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water, Sewer and Refuse Collection	4.0 - 5.25%	\$ 2,965,000
Redevelopment Tax Increment	4.7%	<u>1,946,272</u>
		<u>\$ 4,911,272</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2007	318,700	235,704	554,404
2008	337,098	221,495	558,593
2009	350,892	206,326	557,218
2010	365,099	190,377	555,476
2011	384,739	173,618	558,357
2012-2016	1,924,744	581,376	2,506,120
2017-2021	<u>1,230,000</u>	<u>199,120</u>	<u>1,429,120</u>
	<u>\$ 4,911,272</u>	<u>\$ 1,808,016</u>	<u>\$ 6,719,288</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2006

Note 14 – Long-term Debt – Continued

D. Changes in Long-term Debt

During the year ended June 30, 2006 the following activity occurred in liabilities reported as long-term:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payable	\$ 7,861,950	\$ -	\$ (635,680)	\$7,226,270	\$ 433,700
Capital lease	41,779	-	(9,679)	32,100	10,172
Compensated absences	51,140	8,572	-	59,712	-
Total	<u>\$ 7,954,869</u>	<u>\$ 8,572</u>	<u>\$ (645,359)</u>	<u>\$7,318,082</u>	<u>\$ 443,872</u>
Business-type activities:					
Bond payable	<u>\$ 3,100,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$2,965,000</u>	<u>\$ 140,000</u>

SUPPLEMENTAL INFORMATION

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Capital Projects Fund - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance
Revenues				
Miscellaneous	\$ 91,778	\$ 210,094	\$ 212,635	\$ 2,541
Interest income	808	18,000	23,185	5,185
Total	<u>92,586</u>	<u>228,094</u>	<u>235,820</u>	<u>7,726</u>
Expenditures				
Capital expenditures	149,862	1,095,710	738,456	(357,254)
Debt Service:				
Principal retirement	220,000	220,000	220,000	-
Interest and fiscal charges	57,585	58,235	58,234	(1)
Total	<u>427,447</u>	<u>1,373,945</u>	<u>1,016,690</u>	<u>(357,255)</u>
Excess of revenues over (under) expenditures	<u>(334,861)</u>	<u>(1,145,851)</u>	<u>(780,870)</u>	<u>364,981</u>
Other financing sources (uses)				
Transfers in	213,334	681,280	355,490	(325,790)
Transfers out	(63,472)	-	(70,000)	(70,000)
Total other financing sources (uses)	<u>149,862</u>	<u>681,280</u>	<u>285,490</u>	<u>(395,790)</u>
Excess revenues and other sources over (under) expenditures and other uses	<u>(184,999)</u>	<u>(464,571)</u>	<u>(495,380)</u>	<u>(30,809)</u>
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>1,445,068</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 949,688</u>	<u>\$ -</u>

THE CITY OF WASHINGTON TERRACE
Combining Balance Sheet for Nonmajor Governmental Funds
June 30, 2006

	Impact fee Special Revenue	Debt Service	Total Nonmajor Gvtl. Funds
ASSETS			
Cash and cash equivalents	\$ 230,987	\$ 49,194	\$ 280,181
Total assets	<u>230,987</u>	<u>49,194</u>	<u>280,181</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Fund balances reserved for:			
Impact fees	230,987	-	230,987
Designated unreserved	-	49,194	49,194
Total fund balances	<u>230,987</u>	<u>49,194</u>	<u>280,181</u>
Total Liabilities and fund balances	<u>\$ 230,987</u>	<u>\$ 49,194</u>	<u>\$ 280,181</u>

THE CITY OF WASHINGTON TERRACE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Impact fee Special Revenue	Debt Service	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ -	\$ 402,289	\$ 402,289
Impact fees	214,160	-	214,160
Interest income	4,197	-	4,197
Total	<u>218,357</u>	<u>402,289</u>	<u>620,646</u>
Expenditures			
Capital expenditures	4,569	-	4,569
Debt service:			
Principal retirement	-	245,000	245,000
Interest and fiscal charges	-	150,556	150,556
Total	<u>4,569</u>	<u>395,556</u>	<u>400,125</u>
Excess of revenues over (under) expenditures	<u>213,788</u>	<u>6,733</u>	<u>220,521</u>
Other financing sources (uses)			
Transfers out	<u>(159,066)</u>	-	<u>(159,066)</u>
Total other financing sources (uses)	<u>(159,066)</u>	-	<u>(159,066)</u>
Excess revenues and other sources over (under) expenditures and other uses	54,722	6,733	61,455
Fund balance - beginning of year	176,265	42,461	218,726
Fund balance - end of year	<u>\$ 230,987</u>	<u>\$ 49,194</u>	<u>\$ 280,181</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Debt Service Fund - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Impact fees	\$ 369,460	\$ 395,556	\$ 402,289	\$ 6,733
Interest income	-	-	-	-
Total	<u>369,460</u>	<u>395,556</u>	<u>402,289</u>	<u>6,733</u>
Expenditures				
Debt service:				
Principal retirement	161,594	174,272	245,000	70,728
Interest and fiscal charges	<u>207,866</u>	<u>221,284</u>	<u>150,556</u>	<u>(70,728)</u>
Total	<u>369,460</u>	<u>395,556</u>	<u>395,556</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>6,733</u>	<u>6,733</u>
Excess revenues and other sources over (under) expenditures and other uses	-	-	6,733	6,733
Fund balance - beginning of year	-	-	42,461	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,194</u>	<u>\$ -</u>

STATISTICAL SECTION

THE CITY OF WASHINGTON TERRACE
Supplementary Schedule of Impact Fees
Income, Expenditures, and Balance
June 30, 2006

	<u>Year</u>	<u>Additions</u>	<u>Interest</u>	<u>Uses</u>	<u>Balance</u>
Police					
	Beginning Balance				\$ -
	2001	\$ 1,635	\$ 5	\$ -	1,640
	2002	1,469	61	(10)	3,160
	2003	1,914	99	-	5,173
	2004	2,587	-	(105,928)	(98,168)
	2005	2,414	-	-	(95,754)
	2006	10,405	-	(156)	<u>(85,505)</u>
Fire					
	Beginning Balance				-
	2001	8,413	28	-	8,441
	2002	2,429	-	(14)	10,856
	2003	4,897	311	-	16,064
	2004	6,865	338	-	23,267
	2005	7,299	718	-	31,284
	2006	25,465	1,923	(5,100)	<u>53,572</u>
Culinary Water					
	Beginning Balance				-
	2001	9,703	-	(776,197)	(766,494)
	2002	5,612	-	-	(760,882)
	2003	7,922	-	(9,800)	(762,760)
	2004	9,315	-	-	(753,445)
	2005	10,093	-	-	(743,352)
	2006	22,944	-	(5,100)	<u>(725,508)</u>
Sanitary Sewer					
	Beginning Balance				-
	2001	6,406	-	(818,075)	(811,669)
	2002	4,034	-	-	(807,635)
	2003	5,531	-	(10,800)	(812,904)
	2004	5,673	-	-	(807,231)
	2005	6,699	-	-	(800,532)
	2006	7,226	-	(5,100)	<u>(798,406)</u>
Storm Drain					
	Beginning Balance				-
	2001	11,476	-	(463,633)	(452,157)
	2002	57,165	-	-	(394,992)
	2003	9,365	-	(70,000)	(455,627)
	2004	10,615	-	-	(445,012)
	2005	12,211	-	-	(432,801)
	2006	33,707	-	(117,000)	<u>(516,094)</u>
Parks					
	Beginning Balance				-
	2001	6,125	20	-	6,145
	2002	39,167	-	(107,876)	(62,564)
	2003	34,760	-	(37,073)	(64,877)
	2004	27,635	-	-	(37,242)
	2005	23,362	-	-	(13,880)
	2006	\$ 115,393	\$ 989	\$ (7,023)	<u>\$ 95,479</u>

REPORTS

**Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**Honorable Mayor and City Council
Washington Terrace City, Utah**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City as of and for the year ended June 30, 2006, which collectively comprise Washington Terrace City's basic financial statements and have issued our report thereon dated November 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Washington Terrace City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Washington Terrace City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, and State agencies. However, this report is a matter of public record and its distribution is not limited.

Litz & Company P.C.

November 10, 2006

THE CITY OF WASHINGTON TERRACE
Status of Prior Year Audit Findings
June 30, 2006

Finding relating to the financial statement which are required to be reported in accordance with generally accepted government auditing standards.

2005-01 Incompatible Functions

Status Resolved for June 30, 2006

Independent Auditors' State Legal Compliance Report

**Honorable Mayor and City Council
Washington Terrace City, Utah**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City, for the year ended June 30, 2006, and have issued our report thereon dated November 10, 2006. As part of our audit, we have audited Washington Terrace City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

B&C Road Funds (Department of Transportation)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of Washington Terrace City's financial statements.)

Liquor Law Enforcement (State Tax Commission)
Fire Grant (Department of Public Safety)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Liquor Law Enforcement
B&C Road Funds

Special Districts
Other General Issues
Uniform Building Code Standards
Truth in Taxation & Property Tax Limits
Justice Court
Impact Fees and Other Development Fees

The management of Washington Terrace City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are outlined in the accompanying Schedule of State Findings and Questioned Costs.

In our opinion Washington Terrace City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Litz & Company, P.C.

November 10, 2006

WASHINGTON TERRACE CITY
Schedule of State Findings and Questioned Costs
June 30, 2006

TRUTH IN TAXATION

Finding: The Utah State Tax Commission requires the filing of from TC-693 "Tax Rate Summary". This form contains the budgeted amount of tax revenues to be derived through property taxes based on the certified tax rate established by the City. The amount of budgeted property tax revenue should agree with the City's adopted budget. The amount of property tax revenue on the City's budget is different by a small amount to the amount budgeted on form TC-693.

Recommendation: The City should review the budget and the Tax Rate Summary form to ensure that the budgeted property tax revenues are the same on both reports.

Questioned Costs

\$ -0-

Response: Management will follow the auditor's recommendation.

CLASS C ROAD FUNDS

Finding: The Utah Code requires cities to place contract retentions in an interest bearing account for the benefit of the contractor. When all work is complete and accepted by the city, the interest accrued on the retention is to be paid to the contractor. During our audit we noted the City has not been holding contract retention amounts in an interest bearing account and have not paid the interest to contractors upon project acceptance by the City.

Recommendation: The City should either place the retention amounts into a separate interest bearing account or track the amount separately as a component of the pooled cash fund until paid. If the City uses the pooled cash method, then interest earnings should be allocated based on the actual rates received in the pooled cash account. Upon acceptance of the project, the interest in the retentions should be paid to the contractor.

Questioned Costs

\$779

Response: Management will follow auditor's recommendation to track the amounts separately as a component of the pooled cash fund until paid.

GENERAL COMPLIANCE

Finding: Utah Code requires Cities to maintain a maximum unrestricted fund balance in the general fund. The City has a fund balance greater than the maximum amount of 18% of budgeted revenues allowed by the Code.

Recommendation: The City should seek to comply with this provision in the current 2006-07 fiscal year by either making a transfer to the capital projects fund for the excess over the 18% amount or by reducing current year taxes or increasing current year expenditures in the general fund to spend the excess.

Questioned Costs

\$423,906

Response: Consistent with the City's Budget Policies and Procedures, management will transfer to the capital projects fund the excess over the 18% maximum allowed by the Utah Code.